

# Youth Labor Market Transition Challenges in Western Balkans: The Case of Macedonia, Serbia, and Montenegro

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Doi:10.19044/esj.2019.v15n5p154

[URL:http://dx.doi.org/10.19044/esj.2019.v15n5p154](http://dx.doi.org/10.19044/esj.2019.v15n5p154)

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## Abstract

The main challenge of Western Balkans countries since in this period of transition has been the unemployment issue. In different time tables the unemployment rate has been 35% but if we see the unemployment rate among youth, its level at times has even been almost twice as higher that the overall unemployment rate. In this paper we will focus on youth unemployment and the challenges they face towards being employed after they finish their education. For this purpose it will be used the data from the School-to-work Transition Survey (SWTS) administered by the International Labor Organization for Macedonia, Serbia, and Montenegro which was conducted during 2014. The results will show which factors influence most in being unemployed. The main aim of this paper is to analyze the transition of youth from the education process to labor market and their employment. The results deriving from this paper will shed light to the problems that youth in Western Balkan faces.

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**Keywords:** Unemployment rate, youth unemployment, transition from school-to-work.

## 1. INTRODUCTION

Unemployment among young people as it is known does not affect young people only, but it also has negative effects on the entire society of the country concerned. This global issue problem as most countries are facing is a permanent threat to our societies. Regarding the macroeconomic aspect, unemployment represents a loss of productive resources and through loss of human capital it slows long-term growth and jeopardizes social cohesion (Brada, Marelli, & Signorelli, 2015). As we look at this at the individual level,

unemployment can cause youth health problems and eliminate their well-being, as well as prevent accumulation of work experience, which then produces negative effects on career prospects and future incomes. This also increases the risk of young people being excluded from the labor market for a longer period of time (Bell & Blanchflow, 2011).

The rest of the paper is organized as follow: section two deals with literature review, section three describes the research methodology used in this paper, section four gives the conclusions of the paper.

## **2. LITERATURE REVIEW**

As mentioned above, the issue of youth unemployment and employment has gained much attention in the last period. But another problematic element in this regard is the transition of young people from education to employment or to the labor market. Many young people go through difficult transition periods until they find a job.

As a result of the continuous rise in youth unemployment, this category of society faces problems such as: poverty growth, social exclusion and a deep economic gap from older generations, and increases the risk of growing a generation of “lost” persons who will probably never be able to enter the labor market (Scarpetta, Sonnet, & Manfredi, 2010). Some of the identified causes of youth unemployment are the following: inequality in the labor market, lack of services to young people and the privatization of education (European Youth Forum, 2014).

Theories about youth unemployment are part of the theory that explains unemployment (Brada, Marelli, & Signorelli, 2015). At least three sets of unemployment determinants can be identified. The first group of causes include cyclical macroeconomic conditions. The relationship between the unemployment rate and GDP growth is the so-called Okun law, where it is noticed that this coefficient varies from country to country, and the time and the reasons for this are different economic structures and different institutions and policies (IMF, 2010). Authors Hutengs & Stadtmann (2014) point out that the absolute value of Okun's coefficient decreases for older groups unlike the younger ones, where the greatest impact of GDP fluctuations has been seen in new groups. In addition, the perpetrators found that the unemployment rate for young men responds more to changes in GDP than to women because of the fact that men are more employed in cyclical sectors than women. Among other things, it should be noted that many studies point out that youth unemployment is more affected by economic cycles than general unemployment due to the fact that young people have less experience and contracts less favorable than older people.

The other group of variables that determine unemployment and labor market performance are the demographic, individual, social and structural

conditions. The demographic variables refer not only to the composition and natural movement of the population, but also to the migration flows. Individual variables include worker preferences, while social variables include family role, parenting, and regional mobility barriers (Marrelli, Choudhry, & Signorelli, 2013).

The third group of variables, which is very important for politics and institutions, is that almost 2/3 of the cyclical unemployment changes over time are explained by the changes in these variables. In addition to labor taxes, employment benefits, trade unions and collective bargaining, employment protection legislation and labor market policies that affect the overall level of unemployment, institutional variables that are specific to youth unemployment include minimum salaries and the extent to which collective contracts are used.

Marrelli, Choudhry & Signorelli (2013) in their study also emphasize that in addition to macroeconomic factors such as economic growth, economic freedom, labor market reforms and other factors such as partial employment and active labor market measures reduce unemployment in particular among young people and increase labor market performance.

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Individual and family characteristics represent important elements in shaping differences and trends in youth unemployment. This study analyzes the unemployment of young people in Italy and Russia through individual and family factors such as household characteristics, region characteristics, time effect (to control macroeconomic conditions and crisis effects). Their conclusion is that the element of disposable household income has the highest negative probability of being unemployed, so the increase in income decreases the probability of being unemployed. The unemployment risk decreases with the youth of Russia and with marital status in Italy. The timeframe was also important as they lead to an increased risk of unemployment in times of crisis (Marrelli & Vakulenko, 2014).

The authors of Eichhorst & Neder's study of young people's unemployment in the Mediterranean countries (France, Greece, Italy, Portugal and Spain) conclude that youth unemployment in these countries has reached alarming proportions. According to them, in these countries the dropout rate is high, the return to the educational process is difficult and very low, and the transition from education to employment is quite problematic.

Unemployment among young people depends on many factors that are also related to the characteristics or the specifics of a country. Some of these

factors are: the degree of skills mismatch and the transition from school to work. But besides these factors, other factors are also influenced by cyclical fluctuations, where young people are most affected by the fact that companies in such cases have lower opportunity costs if they remove young people from work. In addition to the skill factor, there is a so-called "trap of experience", where the lack of experience young people do not have much space to employers (Dunsch, 2016).

The authors Carleo & Pastore (2007), unlike some other studies, stop analyzing the youth work gap and how it affects employment, respectively their unemployment. According to them, unemployment among young people depends on the youth's difficulty in meeting this gap in experience. They identify two main factors in reducing this gap: Labor Market Flexibility and low incomes at work start. But in addition to these factors, the education and training system and the passive monetary support scheme are not less important in combating youth unemployment

Providing a mild transition to a job for young people puts them on a path to being productive as old and achieving their goals of life. There are many factors in ensuring a successful transition, among them: youth job market demands, skills and work experience, availability of information from the labor market and other services to support young people. Here also the role of providing education and training as well as work during the study, which facilitate this process.

Transition of young people can be analyzed in two aspects, macro and micro (Hannan, Raffe, & Smyth, 1996). In macro terms this has to do with the relationship between the results of the educational process and the aggregate economic performance and in particular the role of education / training systems in promoting economic growth, improving income levels and meeting skill needs. In terms of micro, the results from the transition process are generally seen in economic terms:

- Participation in the workforce
- Employment versus unemployment
- Professional status
- Adapt the characteristics of vocational education / training
- Salaries and wage growth
- Employment security
- Access to on-the-job training or sponsored by the employer
- Work and career mobility
- Satisfaction at work

The process of youth engagement in the labor market poses a real challenge for young people, despite the fact that many young people have a higher level of education and various kinds of skills from their parents, again

this process can to be characterized as a turbulent and unsafe period for young people This is particularly acute after the great financial and economic crisis of 2008, where there is a marked increase in unemployment throughout Europe. Now more than 5 million young people in Europe are unemployed, representing a rate of about 20% of youth unemployment, should not include young people who continue education precisely because of the absence of a job (Wolbers M. , 2014)

Some authors who have researched this issue in Spain and the EU countries (Dolado, Jansen, Felgueroso, Andrés, & Wölfl, 2013) have come to interesting conclusions about the transition from youth to employment. According to them, the length of transition is shorter in men than in young women who face a more prolonged transition. On the other hand, it is emphasized that having a higher level of education is closely related to the length of the transition, so that persons with higher levels of education (in the case of concrete higher education) experiencing a shorter transition to average difference by persons with the lowest education.

Authors Tiongson and Fares (2007), in the World Bank survey on youth unemployment and transition in Bosnia and Herzegovina, point out that young men and women are faced with various obstacles in finding a job. Some of these obstacles are: high unemployment rate and very long transition from school to finding a job. They conclude that the initial period of unemployment has some adverse effects, such as reducing the ability of women and men to integrate into the labor market.

### **3. RESEARCH METHODOLOGY**

#### **3.1.DESCRPTION OF DATA**

The data used in this study are gained from the School-to-work Transition Survey (SWTS) wich was conducted by the International Labor Organizations during the years 2014-2015, in many transition or developing countries in Europe, Asia, Africa. For the purpose of the study, are used the available data for three Western Balkan countries, and that is: Macedonia, Montenegro, Serbia. The data gathered are cross-sectional (based on the surveys conducted in 2014), obtained from School-to-work Transition Survey (SWTS), which is administered by International Labor Organization. In the survey, a total of 7.486 young persons were included, between age 15-29 years. Due to that the aim is towards the youth that has already finished their studies and analyzing their transition, the youth that is still studying and those that are not participating in the labor force were removed (not employed and not seeking for a job). Consequently, the total sample number was 2.128 persons.

To estimate the probability of a person that would be employed, we employ the Probit Regression analysis and its marginal effect. The dependent variable is if a person is employed or unemployed that is, value 1 for being employed and 0 otherwise (unemployed).

The explanatory variables that we use in this model are defined as follow:

- Age - age of the youth between 15-29 years,
- Gender - Female =1, male = 0
- Area of living –urban =1, rural = 0
- Father’s education University degree=1, High school or less = 0
- Mother’s education University degree=1, High school or less = 0.
- Education level completed University degree=1, High school or less = 0
- Working while studying Yes =1, No = 0

**Table 1 - Descriptive statistics**

Variable	Obs	Std. Dev.
<b>Emp_unemployed</b>	2128	.4933412
<b>Area</b>	2128	.4868952
<b>Age</b>	2128	3.095422
<b>Sex</b>	2128	.4736839
<b>Marital_status</b>	2128	.4648755
<b>Household financial situation</b>	2128	.9102422
<b>Father’s education</b>	2128	.6543174
<b>Mother’s education</b>	2128	.7268890
<b>Education level completed</b>	2128	.6147661
<b>Field of education</b>	2128	2.599879
<b>Working while studying</b>	2128	.3472992
<b>Unemployment Spell</b>	2128	.5358742

### 3.2.RESULTS FROM THE ECONOMETRICAL MODEL

As mentioned in this study, a Probit Regression model is applied in order to measure the phenomena of youth transition towards labor market. The dependent variable is the probability of being employed or unemployed after you finish your studies. The independent variables are area, age, sex, marital status, household financial situation, father's education level, mother's education level, education level of the person, the field of education, work experience while studying. The results of the computed model are presented in table 1.

**Table 2 - Probit model results of labor market transition of youth in the three Western Balkan countries**

Variable	Coefficient	Marginal Effect
Area of living	-.0334653	-.0157924
Age	.0522667**	.0185138
Sex	-.2875194*	-.1082463
Household financial situation	.1989763*	.0735836
Father's education	.2531387*	.0894427
Mother's education	.2386339*	.0841433
Education level completed	-.0224531	-.0099730
Working while studying	.8052763***	.2811452

Source: Authors calculation

Note: The symbols \*\*\*, \*\*, \* denote that the coefficient is statistically different from zero at 1, 5 and 10 percent, respectively

After the results from the probit model for the dependent variable (being employed or unemployed), it is found that coefficients for age, sex, household financial situation, mother's education level and father's level of education, working experience while studying have statistical significance. The others variables such as area of living, and interestingly the level of education of youth doesn't show statistical significance.

The coefficient of age is positive and statistically significant. This indicates that a change in the age by one year (being one year older) is more likely to increase the probability of a person being employed by 1.8%, which is in line with the conclusions of other studies such as Kelly et. al(2014).

A statistically significant but negative correlation is found between employment and sex, i.e. females are less likely to be employed in comparison to man by 10.8%, and mainly females' experience a harder transition from school to finding a job than man do. This is in line with the conclusions of other authors (Quintini&Manfredi, 2009).

Young people that have better "household financial situation" are more likely to get employed than those that have average or bad financial situation. The coefficient for this variable is statistically significant. That means that being in a better financial situation of the whole family or household increases the probability of being employed by 7.3%.

The other two variables, father's and mother's education level also have statistically positive significance. If the father of a young person has a higher level of education, it increases the probability of being employed by 8.9%, whereas if the mother has a higher level of education, it increases the probability of being employed by 8.4%. This is in line with the conclusion of study made by Hadjivassiliou, Kirchner Sala&Speckesser (2015). A positive and statistically significant coefficient is "having working experience while studying". The results show that a person that has had a working experience while studying has 28.1% probability of being employed than a person that

doesn't have working experience. This is an interesting indicator that should be taken into consideration. The result is consistent with the findings of Rosso et al. (2012). They claim that lack of work experience is one of the factors that impact negatively in the transition process of youth.

Lastly, the variables area of living and education level of youth turns out that don't have statistical significance. Interestingly though is the result for the variable education level. Usually it is expected that people with higher education tend to get a job more easily than those that have lower level of education. But, in this case is the opposite, which indicates that market requires less people with higher education level.

#### **4. CONCLUSION**

The aim of this study was to analyze the factors that influence the process of labor market transition of youth in three Western Balkan countries that is Macedonia, Serbia, and Montenegro. The data used in the study were taken from International Labor's Organization survey, which was conducted in these countries amongst others. As conclusion to the result gained from the Probit regression, it turns out that females are less likely to be employed in comparison to males. Being older means that you have more chances of being employed. An interesting results is that gained from the variable "household financial situation". From the result, it is concluded that if a younger person belongs to a household that is in better financial situation, he or she has higher probability of being employed. Other two variables that influence in the state of a youth of being employed or not, is the education level of the parents. Young people, whose parents have higher level of education tend to have better chances of getting a job. In the end, it turned out that the level of education of the young person doesn't have impact on his or her probability of being employed. This could be due to the fact of mismatch between educational institutions (labor market offer) and demand by the labor market, as we witness an increase number of highly educated people, whereas the labor market demands are toward less skilled and educated persons.

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